

Alcoholic Beverage Commission

**For the Years Ended
June 30, 2001, and June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

July 30, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Michelle Long, Executive Director
Alcoholic Beverage Commission
Suite 300, Capitol Boulevard Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Alcoholic Beverage Commission for the years ended June 30, 2001, and June 30, 2000.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
02/050



**STATE OF TENNESSEE
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March 4, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Alcoholic Beverage Commission for the years ended June 30, 2001, and June 30, 2000.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Alcoholic Beverage Commission's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Alcoholic Beverage Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The commission's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the commission's internal controls and/or instances of noncompliance to the Alcoholic Beverage Commission's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Alcoholic Beverage Commission
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Alcoholic Beverage Commission for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, equipment, confiscated inventory, the Alcohol Server Training Program, and the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDINGS

Controls Over Cash Receipts Need Improvement

A review of procedures for processing and recording cash receipts revealed that deposits were not always made timely, not all incoming revenue was receipted, and there is no independent reconciliation of the receipt records.

Controls Over the Alcohol Server Training Program Need Improvement

The commission did not require any of the licensees conducting alcohol server training to post an indemnity bond. Also, documentation related to server permits was not always maintained on file.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Alcoholic Beverage Commission
For the Years Ended June 30, 2001, and June 30, 2000

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Alcoholic Beverage Commission

For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Alcoholic Beverage Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The commission consists of three members, one from each grand division of the state, appointed by the Governor for terms concurrent with the Governor’s term. The executive director of the commission, a licensed attorney, is the chief administrator and is aided by an assistant director and a chief law enforcement officer. The commission also employs special agents who are authorized to enforce the provisions of the applicable criminal statutes, as well as those rules and regulations enacted by the commission. These agents are responsible for regulatory inspections and liquor and/or drug investigations, which may be covert or overt.

The commission’s primary responsibility is to enforce the rules and laws governing the liquor industry in Tennessee. Regulation and enforcement of alcoholic beverages less than 5 percent alcohol (i.e., beer) are handled by the local jurisdictions and vary significantly from place to place.

In 1995, the General Assembly passed legislation creating a statewide server training program and assigned the commission as the administrator. The purpose of the program is to make alcoholic beverage industry employees aware of the responsible service, sale, and dispensing of alcoholic beverages. The ultimate goal of the program is to help reduce the number of deaths and injuries caused by intoxicated drivers, reduce the numbers of intoxicated drivers on state highways, and reduce the property damage resulting from alcohol-related accidents. Servers also receive training on identifying underage drinkers and intoxicated

individuals. The server training program is financed entirely by fees generated from class registration.

An organization chart of the commission is on the following page.

The commission is part of the general fund of the State of Tennessee. The audit covered allotment code 316.03.

AUDIT SCOPE

We have audited the Alcoholic Beverage Commission for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, equipment, confiscated inventory, the Alcohol Server Training Program, and the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

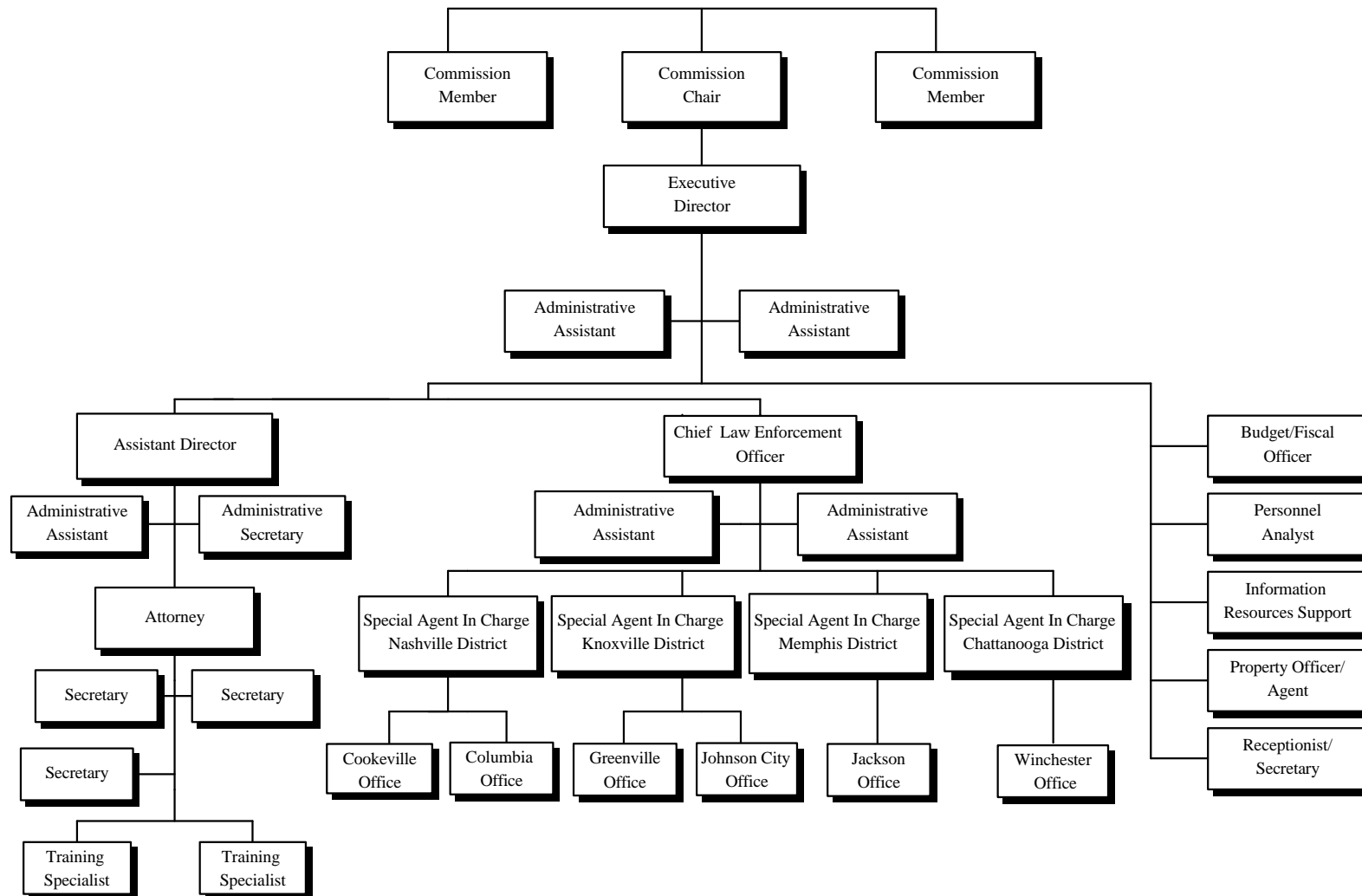
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

Our objectives for reviewing revenue controls and procedures were to determine whether

- policies and procedures regarding revenues were adequate;
- cash collected during the audit period was deposited timely and recorded properly;
- revenue or fees were charged and recorded at the correct amount;
- commission records were reconciled with reports from the Department of Finance and Administration; and

Tennessee Alcoholic Beverage Commission Organization Chart



- liquor dealers had paid their taxes before their licenses were renewed.

We interviewed key commission personnel and reviewed policies and procedures to gain an understanding of the controls over revenue and fees collected by the commission. In addition, we tested a nonstatistical sample of revenue transactions for adequate support, timely deposits, agreement of amounts receipted and deposited, and correct recording. We reviewed supporting documentation to determine whether commission records were reconciled with reports from the Department of Finance and Administration. We also tested a nonstatistical sample of liquor dealer files.

Based on interviews, reviews of supporting documentation, and testwork, we determined that policies and procedures regarding revenue were adequate; revenue and fees were charged and recorded at the correct amount; commission records were reconciled with reports from the Department of Finance and Administration; and liquor dealers had paid their taxes before their licenses were renewed. Based on testwork, we determined that revenue was not always deposited timely and recorded properly as discussed in finding 1.

1. Controls over cash receipts need improvement

Finding

A review of procedures for processing and recording cash receipts revealed the following weaknesses:

- Four of the 25 revenue transactions tested contained 23 receipts that were not deposited timely. The items were deposited one to three days late, and one item was deposited 17 days late. Section 9-4-301, *Tennessee Code Annotated*, states, “It is the duty of every department, institution, office and agency of the state and every officer and employee of the state government, including the state treasurer, collecting or receiving state funds, to deposit them immediately into the treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account if authorized by TCA 9-4-302.” The Department of Finance and Administration’s Policy 25, *Deposit Practices*, defines the term “immediately”: “For departments, institutions, offices and agencies, ‘immediately’ means within 24 hours after \$500 has been accumulated or 5 working days if more than \$100 but less than \$500 has been accumulated, provided that the funds to be deposited are secured under lock and key.”
- For 4 receipts in the 25 revenue transactions tested, there was no cash receipt, date stamp, or entry in the mail log; therefore, it could not be determined if the deposits were made timely. There was no supporting documentation to verify when the revenue was received.

- There is no independent reconciliation of the mail log, deposit slips, and accounting records.

Recommendation

The executive director should ensure that cash deposits are made timely in accordance with *TCA* 9-4-301 and Finance and Administration's Policy 25. Also, management should ensure that all incoming revenue is receipted or date stamped and entered in the mail log to ensure proper documentation of receipt. Control procedures should include an independent review of the mail log, deposit slips, and accounting records.

Management's Comment

We concur. The procedure for making cash deposits daily and receipting and entering all revenue received through the mail shall be improved. Accountability shall be enhanced by employing an independent person to review the mail log, deposit slips, and accounting records.

EQUIPMENT

Our objectives for reviewing equipment controls and procedures were to determine whether

- policies and procedures regarding equipment were adequate;
- equipment purchases were properly added to the Property of the State of Tennessee (POST) system;
- the information on the commission's equipment listed in the POST system is accurate and complete;
- lost and missing equipment was reported to the Comptroller of the Treasury and removed from POST; and
- equipment was adequately safeguarded.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over equipment. We traced a nonstatistical sample of equipment purchased during the audit period to the invoice to determine whether the equipment was properly added to POST. We physically located or confirmed the sample of equipment items added to POST during the audit period. In addition, a sample of equipment items observed in the Nashville office was compared to POST. We also reviewed

supporting documentation to verify that lost and missing equipment was reported to the Comptroller of the Treasury and removed from POST.

Based on interviews and reviews of supporting documentation, we determined that policies and procedures regarding equipment were adequate, and equipment was adequately safeguarded. Based on testwork, we determined that equipment purchases were properly added to POST and that information on the commission's equipment listed in POST was accurate and complete with minor exceptions. Also, lost and missing equipment was properly reported and removed from POST with a minor exception. Although we had no findings related to equipment, minor weaknesses were reported to management in a separate letter.

CONFISCATED INVENTORY

Our objectives for reviewing controls and procedures over confiscated inventory were to determine whether

- policies and procedures for confiscated inventory were adequate;
- confiscated inventory was adequately safeguarded;
- inventory recorded represented a complete listing of the commission's confiscations and such items were physically on hand; and
- confiscated cash for cases closed during the audit period was properly removed from inventory and deposited.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over confiscated inventory. We performed inventory test counts and verified the extensions and footings on the inventory records. We also tested a nonstatistical sample of confiscated cash for cases closed during the audit period to determine whether funds were properly removed from inventory and deposited.

Based on interviews and reviews of supporting documentation, we determined that policies and procedures regarding confiscated inventory were adequate, and confiscated inventory was adequately safeguarded. Based on testwork, we determined that inventory records represented a complete listing of the commission's confiscations and such items were physically on hand, and confiscated cash related to closed cases was properly removed from inventory and deposited. Although we had no findings related to confiscated inventory, minor weaknesses were reported to management in a separate letter.

ALCOHOL SERVER TRAINING PROGRAM

Our objectives for reviewing the Alcohol Server Training Program were to determine whether

- policies and procedures for the program were adequate;
- the rules for issuing server permits were complied with;
- the correct server permit and training program certification fees had been charged and collected; and
- a system is in place to ensure that programs licensed to train more than 25 servers a year post an indemnity bond.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over the Alcohol Server Training Program. We tested nonstatistical samples of server permits and certified training program licenses issued during the audit period.

Based on interviews and reviews of supporting documentation, we determined that policies and procedures regarding the Alcohol Server Training Program were adequate. Based on testwork, we determined that the rules for issuing server permits were complied with and the correct fees had been charged and collected except as discussed in finding 2. We determined that the commission did not require licensees conducting alcohol server training to post an indemnity bond before issuing the license, as discussed in finding 2. In addition to the finding, a minor weakness was reported to management in a separate letter.

2. Controls over the Alcohol Server Training Program need improvement

Finding

The primary responsibility of the Alcoholic Beverage Commission is to enforce the rules and laws governing the liquor industry in Tennessee. In 1995, the General Assembly passed legislation creating a statewide server-training program and assigned the commission as the administrator. The purpose of the program is to make alcoholic beverage industry employees aware of the need for responsible service, sale, and dispensing of alcoholic beverages.

Rule 0100-8-.04(2) of the Rules of the Tennessee Alcoholic Beverage Commission states, "Any program licensee certified to conduct an alcohol awareness program training greater than twenty-five (25) servers a year shall, as a condition precedent to the granting of the license, in addition to all other requirements set out herein, post with the Commission an indemnity bond with good and solvent surety, in the amount of two thousand dollars (\$2,000.00). The forfeiture

or cancellation of the bond, for any reason whatsoever, shall automatically revoke the license granted herein.” The Alcoholic Beverage Commission did not require any of the nine licensees conducting alcohol server training to post an indemnity bond before issuing the license.

Testwork performed on the issuance of server permits revealed the following:

- For 4 of 25 server permits tested (16%), the commission could not locate the applications that each individual must complete before receiving a permit.
- For 1 of 21 server permits tested (5%), there was no documentation on file that the individual had attended a certified training class.
- For 3 of 21 server permits tested (14%), the receipt book documenting the fee charged for the permit issued could not be located; therefore, it could not be determined if the proper fee was charged for the permit.

Recommendation

The executive director should implement procedures to ensure that licensees of alcohol server training programs that train over 25 servers a year have posted the proper indemnity bond before issuing or renewing the license. The executive director should also ensure that server permit applications and documentation of revenue received are maintained on file.

Management’s Comment

We concur. The Tennessee Alcoholic Beverage Commission (TABC) rule requiring the payment of a bond for certain alcohol awareness training programs and the practice of granting a program license shall be reconciled.

The TABC shall improve the processes for issuing server permit applications to ensure that all applications and records of payment and training class attendance are maintained on file both manually and electronically.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the commission's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters were submitted on time.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Alcoholic Beverage Commission filed its compliance reports and implementation plans on June 30, 2000, and June 29, 2001.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.